MINUTES
ECONOMIC POLICY COUNCIL

August 1, 1985
1:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Block, Baldrige, Yeutter, Sprinkel, McFarlane, Whitehead, Darman, Jensen, Kingon, McAllister, Friedersdorf, Oglesby, Driggs, Khedouri, Moran, Mulford, Smith, Stucky, Wallis, Whitfield, and Wigg.

1. U.S.-EC Steel Negotiations

Ambassador Yeutter reported that last evening EC Commissioner De Clercq made a counter offer to restrain export of EC consultation steel products exports at either 490,000 tons (on an annualized basis) beginning July 1 or 475,000 tons beginning August 1. The standing U.S. offer is a 475,000 ton limit starting July 1. Several members of the Council expressed satisfaction that U.S. willingness to maintain our negotiating position, even if requiring unilateral action, may have prompted the EC concession.

Decision

The Council agreed to accept the EC offer, leaving the starting date to Ambassador Yeutter's discretion.

2. Section 201 Nonrubber Footwear Import Case

The Council continued its discussion of the Section 201 nonrubber footwear import case, begun at the July 23 meeting. Ambassador Yeutter reported that the prospect of a 25 percent tariff, rather than the ITC recommended global quota, was receiving a cool reaction in Congress and within the shoe industry. Senator Danforth has informed the Ambassador that if the Administration choses to adopt a tariff, we would have 30 days with which to persuade the industry of its efficacy, or Congress would probably take up legislation imposing a quota. He noted that for a tariff to be effective in restricting imports it would have to be roughly 35 percent, instead of the 25 percent tariff currently being studied.

Chairman Sprinkel claimed that the footwear case fails to meet the major economic tests by which a President must decide whether to grant import relief: the relief would probably not help the domestic shoe industry become more competitive; the cost to consumers would be significant; the adjustment process without relief would not be difficult for domestic shoe workers; and the international ramifications would be significant. He argued for aggressive leadership by the Administration in resisting assistance to the domestic footwear industry.

Secretary Baker stated that the decision was not solely an economic one but also a tactical one. The issue is, what effect the President's decision on the footwear case will have in discouraging protectionist legislation, particularly textiles.

Mr. Oglesby stated that the Congress is becoming increasingly protectionist. He noted that the Administration's Congressional free trade allies are in a difficult position with regards to the footwear case, because the ITC unanimously recommended relief. He also noted the somewhat surprising importance of trade as an issue in the special Congressional race in Texas.

The Council's discussion focused on the intensity of protectionist feelings, within both society and Congress, and the potential of various footwear case options to affect that intensity. Some members expressed a belief that failing to provide some relief for the shoe industry would increase the intensity of protectionist sentiment. Others questioned whether providing relief for footwear would diminish protectionist intensity, and suggested it might have the opposite effect of spurring more requests for relief. The Council also noted that increased intensity for protectionism might adversely affect other elements of the President's program, such as seeking to reduce government spending and reforming taxes.

The Council also discussed the possible effects of providing relief for the shoe industry on the newly industrialized countries, including Brazil. Some members expressed concern about Brazil's ability to service its debt if its shoe industry is significantly harmed. Mr. McFarlane suggested the Council should consider an option that might lessen the effect of a quota on Brazil by establishing orderly marketing agreements.

The Council noted that there are not many upcoming 201 cases, which might reduce the impact of the footwear case as a precedent. Secretary Baldrige pointed out that if the President rejects the recommendations of the ITC, it raises the threat that Congress might amend Section 201 to remove the President's discretion in such cases.

Decision

Secretary Baker asked that two additional options be developed for Economic Policy Council consideration: a quota with orderly market agreements and a 35 percent, steeply declining tariff.